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C O N F I D E N T I A L SECTION 01 OF 02 BUDAPEST 000014

SENSITIVE
SIPDIS

DEPT FOR EUR/CE JAMIE MOORE; PARIS FOR FAA TRICIA STACEY;
COMMERCE FOR SILVIA SAVICH

E.O. 12958: DECL: 01/12/2015
TAGS: [PGOV](#) [PREL](#) [EAIR](#) [EINV](#) [EFIN](#) [RU](#) [HU](#)
SUBJECT: RENATIONALIZING MALEV AIRLINES: JAN 31 THE LATEST
TARGET DATE

REF: A. 09 BUDAPEST 851
[B](#). 09 BUDAPEST 281
[C](#). 09 BUDAPEST 135

Classified By: Aaron Feit for reasons 1.4 (b) and (d)

[1](#)1. (C) SUMMARY: Recent press reports indicate that the GOH is close to finalizing a deal by January 31 to reacquire a majority stake in struggling Malev Airlines from Russia's Vnesheconombank (VEB). The conclusion of such a deal would help close a turbulent era for Malev under de facto Russian ownership and bring Malev back into compliance as an EU carrier. The GOH, loathe to inject more cash into Malev while it manages through its own economic crisis, is negotiating a debt-for-share swap in exchange for a majority stake in the airline. Previously exposed to significant payment delays for its leased aircraft, Malev's American creditor has little confidence in its Russian owners and is hopeful the deal will go through. END SUMMARY.

THE LEAST WORSE OPTION, IF NOT THE ONLY OPTION

[1](#)2. (C) All of Malev's eighteen Boeing 737 aircraft--representing a \$600 million investment and the backbone of its fleet--are leased from the International Lease Finance Corporation (ILFC), based in California. In a January 7 conversation with Econoff, ILFC's CEO Steven Udvar-Hazy stated that Malev's lease payments have "gotten better" since Malev received in March 2009 a life-saving \$13.6 million injection of cash (ref B) from its de facto Russian owner Vnesheconombank (ref C). Udvar-Hazy said that throughout 2009 he has traveled to Hungary, meeting with Hungarian Finance Minister Peter Oszko, Malev CEO Martin Gauss, and other key officials involved in the GOH's plan to reacquire a controlling stake in Malev. Udvar-Hazy confirmed media reports that the GOH is pressuring VEB to sign a deal by January 31. Under this deal, the GOH will not put up cash for Malev (ref A), instead acquiring a majority stake in the company in exchange for not calling in a \$46 million bank guarantee, while also forgiving Malev's substantial tax debts of approximately \$100 million. Udvar-Hazy said he is supportive of this deal, citing a lack of confidence in VEB's abilities to successfully manage the airline while adhering to Western business standards.

[1](#)3. (C) With an eye towards Hungary's widely predicted change in government after parliamentary elections this spring, Udvar-Hazy has also met with probable future PM Viktor Orban. Udvar-Hazy said that Orban "understands he has little choice regarding Malev," i.e. in the absence of any interested private entity acquiring Malev, the GOH's reacquisition of the airline is the only way to ensure its existence. Udvar-Hazy said his advice to GOH leaders is to manage Malev

to a break-even point, after which it should be reprivatized via an IPO on the Budapest stock exchange. With respect to Malev's current leadership, Udvar-Hazy characterized Malev CEO Martin Gauss as a "capable aviation man," but said it would be more astute from a political perspective if Malev were led by a Hungarian (Gauss is German).

¶4. (C) Udvar-Hazy sharply criticized privately managed Budapest Airport (BA), where Malev has its hub, stating that it has been "ripping off" the airline with excessively high fees. Referring to the fact that Malev operates close to 45 percent of all flights originating from BA, Udvar-Hazy accused airport management of trying to "kill their best customer at the worst possible time." Udvar-Hazy characterized the relationship between Malev and BA as tense.

TIME RIPE FOR A DEAL

¶5. (C) COMMENT: Multiple sources have told us there is eagerness on the Russian side to sell Malev to avoid the embarrassment of having a prominent airline fail under its ownership. The GOH, for its part, is eager to conclude a deal for a number of reasons. First, a close application of EU regulations with respect to Malev's ownership would likely reveal that with close to 100% Russian backing, Malev no longer qualifies as an EU carrier. This would deprive the airline of the many rights and privileges it currently enjoys as an EU carrier. Second, as a vital component to Hungary's transportation infrastructure, the failure of Malev could send a distressing signal to potential investors regarding

BUDAPEST 00000014 002 OF 002

Hungary's suitability for foreign investment. Last, as a symbol and source of national pride, the GOH is at pains to ensure Malev's survival.
KOUNALAKIS